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ACTION EB-11

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FM AMCONSUL HONG KONG

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USLO PEKING

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY RANGOON

AMEMBASSY ROME

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY VIENTIANE

AMEMBASSY CANBERRA

AMEMBASSY SAIGON

COMUSTDC

FBIS OKINAWA

CINCPAC

AMCONSUL BRISBANE

AMEMBASSY PARIS

AMEMBASSY BRASILIA

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CINCPAC FOR POLAD

E.O. 11652: GDS

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SUBJECT: PEOPLE'S REPUBLIC OF CHINA -- ECONOMIC REVIEW 17

REF CERP 0003

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1. SUMMARY OF ACTIVITIES DURING THE REPORTING PERIOD.

MORE EVIDENCE HAS TRANSPIRED ON THE UNPUBLICIZED OIL-FIELDS. NOT ONLY IS THE PRC DEVELOPING OILFIELDS IN HUPEH AND SHANTUNG (SEE ER 16) BUT IT IS INCREASING PRODUCTION AT THESE FIELDS FASTER THAN AT THE MAJOR ESTABLISHED FIELDS. SHANTUNG'S I-TU FIELD WHICH IS CONNECTED BY RAIL WITH THE PORT OF TSINGTAO PROMISES TO BECOME A MAJOR SOURCE FOR GROWING EXPORTS TO JAPAN (ITEM 2). CHINA HAS INAUGURATED THE PRACTICE OF ISSUING DAILY EXCHANGE RATES FOR THE RMB WITH 15 LEADING CONVERTIBLE CURRENCIES (ITEM 3). CHINA HAS CONTRACTED TO BUY SLIGHTLY MORE THAN 1 MILLION TONS OF ADDITIONAL JAPANESE IRON AND STEEL PRODUCTS, BRINGING TOTAL 1974 PURCHASES FROM JAPAN TO 3 MILLION TONS (ITEM 4). THE OPENING OF DIPLOMATIC RELATIONS WITH BRAZIL PROVIDED THE OCCASION FOR TRADE DISCUSSIONS RESULTING IN AN AGREED MINUTE TO SERVE AS A GUIDELINE FOR FUTURE TRADE (ITEM 5). THE NORTH VIETNAMESE VICE PREMIER HELD AID DISCUSSIONS IN PEKING IN EARLY AUGUST, FOLLOWING A SIMILAR SERIES IN EASTERN EUROPE AND THE SOVIET UNION. SLIGHTLY DIFFERING NORTH
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VIETNAMESE AND PRC ACCOUNTS OF WHAT HAD BEEN AGREED RAISE THE POSSIBILITY OF AT LEAST MINOR NEGOTIATING PROBLEMS (ITEM 6). (CONFIDENTIAL)

2. RAPID GROWTH AT UNPUBLICIZED OILFIELDS

NCNA ON AUGUST 8 ANNOUNCED THAT TOTAL CURDE OIL OUTPUT GREW BY 21.3 PERCENT DURING THE FIRST SIX MONTHS OF 1974,

COMPARED TO FIRST HALF 1973. MORE IMPORTANTLY, NCNA ALSO GAVE FIRST HALF GROWTH RATES FOR OUTPUT AT CHINA'S THREE MAJOR OILFIELDS -- TA-CHING (24.7 PERCENT), TA-KANG (22.5 PERCENT), AND SHENG-LI (12.2 PERCENT). FROM THESE GROWTH RATES AND ESTIMATES OF OUTPUT AT TA-CHING, TA-KANG, AND SHENG-LI, ONE CAN EXTRACT OTHER IMPORTANT INFORMATION: COMBINED CRUDE OUTPUT AT CHINA'S OLDER, KNOWN OILFIELDS AND AT UNPUBLICIZED NEW FIELDS IS GROWING JUST AS RAPIDLY (21-23 PERCENT) AS COMBINED OUTPUT AT CHINA'S THREE MAJOR OILFIELDS (20-22 PERCENT). AND SINCE OUTPUT AT THE OLDER OILFIELDS IS GROWING AT A COMBINED RATE LOWER THAN 21-23 PERCENT, THEN OUTPUT AT THE UNPUBLICIZED FIELDS IS GROWING AT A RATE SUBSTANTIALLY HIGHER THAN 21-23 PERCENT. OTHER RECENT REPORTS PROVIDE CLUES TO THE LOCATIONS OF THESE FIELDS.

ASAHI SHIMBUN (JULY 29) REPORTED THAT THE CHINESE ARE GOING TO DEVELOP TWO NEW FIELDS, ONE IN HUPEH, THE OTHER IN SHANTUNG (ER 16). THE ASAHI REPORT, A REPORT THAT THE LIGHT DIESEL OIL BEING SUPPLIED TO HONG KONG IS FROM CENTRAL CHINA, AND THE EXISTENCE OF THREE MEDIUM-SIZED REFINERIES WHICH APPARENTLY SERVE THE HUPEH FIELD -- ALL POINT TO RELATIVELY LARGE OUTPUT AT HUPEH'S "57" OILFIELD.

EARLIER THIS YEAR, NCNA REFERRED TO A I-TU OILFIELD BUT GAVE NO FURTHER INFORMATION. THE HONG KONG MING PAO (NOVEMBER 15, 1973) HAS REPORTED THAT A LARGE OILFIELD WAS DISCOVERED AT I-TU, SHANTUNG PROVINCE, IN OCTOBER 1970 AND THAT PRODUCTION THERE BEGAN IN THE LATTER HALF OF 1971. THE NEWSPAPER'S SOURCE SAID THAT RESERVES AT I-TU SURPASSED THOSE AT TA-CHING AND THAT I-TU WAS DESTINED TO BECOME CHINA'S PRINCIPAL OILFIELD. I-TU IS

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LOCATED ON THE RAIL LINE CONNECTING TSINAN WITH TSINGTAO. A REFINERY IS EITHER UNDER CONSTRUCTION OR HAS RECENTLY BEEN COMPLETED IN TSINAN, AND TSINGTAO HAS BEEN MENTIONED AS A PORT FROM WHICH FUTURE CRUDE EXPORTS TO JAPAN MAY BE SHIPPED. IN SHORT, THERE IS RELATIVELY STRONG CIRCUMSTANTIAL EVIDENCE OF SIZEABLE OIL DEPOSITS AT I-TU, SHANTUNG. NEAR THE COAST AND WITH READY ACCESS TO RAIL AND PORT FACILITIES (TSINGTAO), A LARGE FIELD AT I-TU WOULD GIVE CHINA AT LEAST THREE LARGE OILFIELDS ON THE EASTERN COAST, WELL SITUATED FOR EXPORTS TO JAPAN -- OR ELSEWHERE. (ADDITIONAL DETAILS WILL BE REPORTED SEPARATELY.) (SECRET/NOFORN)

3. RMB EXCHANGE RATES ANNOUNCED

IN A MAJOR DEPARTURE FROM ITS PAST POLICY AND PRACTICE, THE PEOPLE'S BANK OF CHINA ON AUGUST 19 TOOK ANOTHER SMALL STEP TOWARD NORMAL PRACTICE WHEN IT BEGAN TO MAKE PUBLIC ON A DAILY BASIS ITS RMB EXCHANGE RATES WITH FIFTEEN CONVERTIBLE CURRENCIES.

THE AUGUST 19 BUYING RATES IN RMB PER 100 UNITS OF THE FOREIGN CURRENCY (UNLESS OTHERWISE NOTED) WERE: AUSTRIA - 10.68; BELGIUM - 511.85 (PER 10,000); CANADA - 201.69; DENMARK - 32.48; WEST GERMANY - 75.41; FRANCE - 41.05; ITALY - 30.26 (PER 10,000); JAPAN - 652.45 (PER 100,000); HOLLAND - 73.73; NORWAY - 35.93; SWEDEN - 44.74; SWITZERLAND - 66.31; BRITAIN - 462.28; UNITED STATES - 196.93; HONG KONG 38.60.

SUBSEQUENT CHANGES HAVE BEEN ANNOUNCED IN PEKING AND CARRIED IN NCNA. THE HONG KONG TA KUNG PAO AND WEN WEI PAO ARE CURRENTLY CARRYING THE FULL LIST EACH DAY.
(UNCLASSIFIED)

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4. JAPANESE STEEL SALE TO PRC

ACCORDING TO JAPANESE PRESS ACCOUNTS, THE PRC REACHED AGREEMENT WITH JAPANESE STEEL COMPANIES AT THE END OF JULY FOR THE PURCHASE OF 1,150,000 TONS OF IRON AND STEEL PRODUCTS DURING THE SECOND HALF OF 1974. PRICES WERE NOT DISCLOSED. THE JAPANESE DELEGATION, LED BY NIPPON STEEL CORPORATION, REPRESENTED SIX MAJOR STEEL COMPANIES. ADDED TO THE PRC'S PURCHASE OF 1.5 MILLION TONS DURING THE FIRST HALF OF THE YEAR, PLUS ADDITIONAL SALES BY SMALL JAPANESE STEEL MAKERS, PRC STEEL IMPORTS FROM JAPAN IN 1974 APPEAR HEADED FOR A RECORD 3 MILLION TONS. IN 1973 THE PRC BOUGHT 2.6 MILLION TONS FROM THE JAPANESE (TOKYO KYODO, JULY 29).

NEGOTIATIONS WERE PREPOTEDLY COMPLCIATED BY DIFFERENCES OVER PRICE AND QUANTITY. THE PRC WAS SEEKING AN AMOUNT OF STEEL EQUAL TO THAT IMPORTED DURING THE FIRST HALF AT PRICES SUBSTANTIALLY LOWER THAN CURRENT INTERNATIONAL LEVELS, WHILE THE JAPANESE INSISTED ON A CUTBACK BECAUSE OF THE WORLDWIDE STEEL SHORTAGE (METAL BULLETIN, AUGUST 2).

A JAPANESE CONGEN OFFICER IN HONG KONG CONFIRMED THAT PRICE WAS THE MAJOR PROBLEM IN THE NEGOTIATIONS. HE SAID

THAT THE FINAL PRICES WERE 30-50 PERCENT HIGHER (DEPENDING ON THE CATEGORY OF STEEL) THAT PRICES DURING THE FIRST HALF OF THE YEAR, ALTHOUGH STILL A LITTLE LOWER THAN INTERNATIONAL LEVELS. AS RELATED BY THE JAPANESE CONGEN SOURCE, THE PRODUCTS,-- PLATE, HOT COIL, WIRE ROD, GI SHEET, TIN PLATE, ROLLED STEEL BAR, AND SEAMLESS PIPE-- ARE LARGELY SPECIAL STEELS, NOT READILY AVAILABLE FROM PRC DOMESTIC PRODUCTION. (CONFIDENTIAL)

5. PRC-BRAZIL ECONOMIC AGREEMENTS

A PRC TRADE DELEGATION LED BY VICE MINISTER FOR
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FOREIGN TRADE CHEN CHIEH RETURNED TO PEKING AUGUST 17 AFTER A TEN-DAY VISIT TO BRAZIL , WHICH SAW THE INITIATION OF DIPLOMATIC RELATIONS (WR 34, HK 9346) AND THE SIGNING OF A DOCUMENT DELINEATING MUTUAL TRADE INTERESTS.

NCNA HAS CARRIED NO DETAILS OF THE TRADE DISCUSSIONS, REPORTEDLY ONLY THAT A "MINUTE" OF THE TRADE TALKS WAS SIGNED. ACCORDING TO JAPANESE PRESS REPORTS, QUOTING UPI, BRAZIL AGREED TO SELL SOYBEANS, COTTON, SISAL, IRON ORE, AND CELLULOSE TO THE PRC, WHILE THE PRC AGREED TO SELL PETROLEUM, COAL , NON-FERROUS MINERALS, BARBED WIRE, AND HANDICRAFTS TO BRAZIL. THE TWO COUNTRIES ALSO REPORTEDLY AGREED TO SIGN "AS SOON AS POSSIBLE" A THREE TO FIVE YEAR CONTRACT CALLING FOR THE EARLY SALE OF UP TO 200,000 TONS OF BRAZILIAN SUGAR TO THE PRC. OTHER ECONOMIC DISCUSSIONS REVOLVED AROUND THE ESTABLISHMENT OF BANKING CONTACTS AND THE POSSIBILITY OF NEGOTIATING TRADE AND MARITIME AGREEMENTS AT "AN OPPORTUNE TIME" (JAPAN TIMES, AUGUST 18, 1974). (UNCLASSIFIED)

6. PRC -DRV AID RELATIONS

NORTH VIETNAMESE VICE PREMIER LE THANH NGHI ARRIVED IN PEKING AUGUST 1 AND DEPARTED FOR HOME AUGUST 8 AFTER HOLDING TALKS WITH PRC LEADERS ON ECONOMIC ASSISTANCE (WR 32, HK 8838). THE VISIT CAME AT THE END OF MONTH-LONG JOURNEY TO A NUMBER OF COUNTRIES IN EASTERN EUROPE AND THE SOVIET UNION. UNLIKE PREVIOUS YEARS, NO ECONOMIC AND MILITARY AID AGREEMENT WITH THE PRC WAS ANNOUNCED. THIS WAS ALSO THE CASE IN EASTERN EUROPE AND THE SOVIET UNION, WITH EXCEPTION OF ONE NORTH VIETNAMESE REPORT NOTING THAT "DOCUMENTS" WERE SIGNED FOR THE STRENGTHENING OF ECONOMIC, SCIENTIFIC AND TECHNICAL COOPERATION WITH THE SOVIET UNION (VNA JULY 26).

PRC AND NORTH VIETNAMESE ACCOUNTS OF LE'S VISIT, ALTHOUGH EMPHASIZING THE PRC'S SUPPORT FOR NORTH VIETNAM AND THE FRATERNAL HARMONY EXISTING BETWEEN THE TWO

COUNTRIES, DIFFERED SLIGHTLY. VNA REFERRED TO DISCUSSIONS
ON INCREASING PRC AID AS WELL AS DEVELOPING
ECONOMIC COOPERATION, WHILE NCNA MENTIONED ONLY THE
LATTER. HOWEVER, THE PRC'S HANDLING OF LE'S VISIT HAS
BEEN IN LINE WITH PREVIOUS YEARS AND AT AN APPROPRIATELY
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HIGH LEVEL. VICE PREMIER LI HSIEN-NIEN HEADED THE PRC
IN THE TALKS, AND FOREIGN TRADE MINISTER LI CH'ANG
ACCOMPANIED THE DELGATION WHEN IT DEPARTED PEKING
AUGUST 6 AND UNTIL IT LEFT NANING FOR HANOI ON AUGUST 8.

HE ABSENCE OF ANY ANNOUNCEMENT OF A PRC-DRV AID
AGREEMENT FOR 1975 APPEARS TO SIGNAL A DIFFERENT APPROACH
TO BILATERAL AID ARRANGEMENTS AND FROM THE SIMILAR RECORD
AT LE'S OTHER STOPS IN EASTERN EUROPE AND THE SOVIET
UNION THE SAME MAY ALSO BE TRUE FOR THE DRV'S OTHER
SOCIALIST FRIENDS AS WELL. THE SILGHT NUANCES IN
PROPAGANDA TREATMENT BY NCNA AN VNA DO NOT SEEM STRONG
ENOUGH TO REFLECT MAJOR DISAGREEMENT, BUT DO AT LEAST
SUGGEST THAT ADJUSTMENT OF BILATERAL ECONOMIC ASSISTANCE
TO THE DRV'S POST-PARIS STATUS MAY HAVE CREATED SOME
FRIRICTION AND COULD PORTEND MORE SERIOUS DIFFICLUTIES
IN THE FUTURE. (LIMITED OFFICIAL USE)

7. RECENT REPORTS ON ECONOMIC TOPICS

HK 9409 UN REPORTS ON PRC POPULATION GROWTH AND POLICY
HK 9279 USG SERVICES AT THE 1974 FALL CANTON TRADE FAIR
A-211 TEXT OF PRC-NORWEIGIAN MARITIME AGREEMENT
A-212 PRC-NORWAY SHIPPING RELATIONS.
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